Budget representation: Exchequer implications for the UK of remote working abroad

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The CIOT's recent Budget representation suggests that it is timely to consider the tax and Exchequer consequences of the trend towards UK employees working remotely abroad.

The CIOT's Budget representation suggests that the government should consider the implications for the Exchequer of the trend towards UK employees working remotely abroad. It advocates gathering data to evaluate the extent to which remote working abroad is becoming an established trend and recommends an early high-level consultation to consider possible options for future reform. Although it is not yet clear whether the shift to remote working brought about by the pandemic will develop into a sustained model of remote working, nor whether such a shift would see an increase in remote working being done from abroad, we suggest that the current state of flux provides an opportune time to assess whether the UK's tax base (focusing initially at least on income tax and national insurance) may be undermined by a long-term behavioural change to working remotely from abroad. Whether current tax legislation and the UK's network of tax treaties offer the right balance in protecting UK tax revenues should also be considered.

Anecdotally, we point to early indications of pressure from high earning employees, particularly those employed by multinational companies, to work remotely from abroad. It seems likely that employers/business will find ways to accede to these requests, particularly where such mobile employees are highly valued and marketable.

A second trend is jobs that are currently carried out in the UK may now move abroad as digitisation allows for roles previously located in the UK to be transferred abroad

to locations with lower costs. This has the potential for increased competition among jurisdictions keen to promote the benefits of lower tax rates.

The first of these trends (individuals moving abroad and working remotely) looks more likely to apply to higher earners. The second trend (jobs moving abroad and being done remotely) looks more likely to apply at the other end of the job spectrum.

Other factors weighing against remote working

The Budget representation recognises that while the pandemic and accelerated digitalisation may generate increased interest in remote working, other factors may weigh against such a development, meaning the effect is less significant because of factors such as:

- the complexities of managing employees in another jurisdiction;
- the potential effect on the employer's corporation tax liability; and
- regulatory constraints in working from another country.

To the extent there is increased interest in remote working, the effects may work to the UK's advantage as many people like being in the UK, attracted in part by the non-domiciled tax regime, notwithstanding that others favour warmer climates. High earners attracted to the UK generate revenues on UK expenditure from VAT and other taxes from economic activity in the UK.

Possible routes to addressing emerging risks to the tax base We suggest that an ongoing exercise is undertaken to gather statistics or survey larger employers/partnerships to evaluate the extent to which remote working abroad is becoming an established trend for UK employers; and similarly engaging with international bodies, such as the OECD, to consider worldwide behavioural patterns.

In the short term, changes might be considered to the UK's domestic tax legislation and/or taking an early initiative to renegotiate tax treaties in relevant jurisdictions.

Tax competition between countries offering tax advantaged regimes to mobile high earners has parallels with the global tax discussion on corporate taxes and the G7/OECD 'two pillars' of corporation tax reform. We note that the context of that reform may be favourable to an initiative to forestall the type of 'tax competition' in the personal earned income tax market that has, it is perceived, recently been

curtailed by international agreement in the corporate market.

Any outcome of the set of social and economic changes triggered by the pandemic will be a net effect of a wide range of complex and to some extent contradictory factors. We recognise that there is unlikely to be a simple solution, or even a single direction of solutions. The CIOT therefore recommends the government consider an early high-level consultation on this subject with a view to producing a roadmap of possible options for future reform.

The CIOT’s Budget representation can be read in full at www.tax.org.uk/ref856.